

DENVER WATER
1600 W. 12th Avenue
Denver, Colorado 80204-3412

REQUEST FOR PROPOSAL FOR FINANCIAL ADVISOR SERVICES

Date Advertised: Friday, August 18, 2006

Response Deadline: Thursday, September 14, 2006

By 3:00 p.m. (Denver time)

The Board of Water Commissioners of the City and County of Denver ("Denver Water") is requesting proposals for financial advisory services. Small and disadvantaged business entities ("SBDE"), women- and minority-owned firms are encouraged to apply, either alone or as part of a team proposal. It is expected that the initial term of any contract arising out of this request for proposal shall be for a period of three years.

Please submit three (3) printed copies of the proposal and (1) one electronic copy in .pdf format on a CD before the deadline listed above to:

Mrs. Kathryn M. Kempke
Manager of Treasury Operations
Denver Water
1600 W. 12th Avenue,
Denver, CO 80204

Facsimile proposals will not be accepted. Questions may be directed to Mrs. Kempke by e-mail until Thursday September 7 at kathryn.kempke@denverwater.org.

Proposals will be reviewed, and those firms who appear to most appropriately meet Denver Water's needs will be interviewed.

INTRODUCTION

Denver Water is a water utility which serves a population of approximately 1.15 million people in Denver, Colorado and many of the surrounding suburbs. It is owned by the City and County of Denver and is governed by a five-member Board of Water Commissioners (the "Board") appointed by the Mayor of Denver for overlapping six-year terms. Denver Water has complete charge and control of the water works system and plant. Operating revenue for 2005 was \$165.9 million; capital contributions totaled \$40.2 million.

Over the next 10 years (2007-2016), Denver Water's capital plan is approximately \$836.8 million. Of this, \$488.9 million is for long-term assets that have traditionally been considered for debt financing.

At December 31, 2005 Denver Water's outstanding obligations were as follows:

<u>Type of Obligation</u>	<u>Amount</u>
General Obligation Bonds	\$ 100.3 million
Water Revenue Bonds	191.1
Certificates of Participation	49.8
Other capital lease	<u>27.5</u>
Total	\$ 368.7 million

All outstanding obligations are fixed rate obligations; debt service for 2006 is approximately \$45.5 million and is heavily front-loaded over the next few years. Denver Water is no longer authorized to issue general obligation bonds.

Additional information about Denver Water is available on its website: www.denverwater.org.

SCOPE OF SERVICES

General Description of the Role of the Financial Advisor

1. Provide independent financial advice and serve solely the interests of Denver Water during financing and related transactions.
2. Manage the bond financing process and, upon request, negotiate on Denver Water's behalf.
3. Assist with the selection of other members of the financing team.

The firm selected to be Denver Water's independent financial advisor ("FA") will be precluded from underwriting the Board's securities. However, the firm selected may purchase and sell obligations of the Board in the secondary market.

Denver Water reserves the right to engage the services of additional advisors, such as pricing agents or swap advisors, if it believes it would be in its best interest to do so.

Specific services to be provided by the FA may include, but are not necessarily limited to, the following:

1. Assist during discussions with the senior staff of Denver Water and its Board concerning public sector financing and its implications for Denver Water. This may include designing and implementing an educational program related to (a) methods of sale, including publicly offered and privately negotiated options, (b) the appropriate use and amount of variable rate obligations in the capital structure, (c) industry specific issues that affect the financing and marketing of debt and (d) derivative structures, their applications, risks, benefits and other issues surrounding their use.

2. Assist Denver Water in updating and implementing financial policies.
3. Assist Denver with review of lease transaction proposals.
4. Work with the Board's bond counsel and financing team in recommending timing, method, size, structure, specific terms and conditions of debt issues.
5. Assist with the selection of additional professionals (i.e. verification agent, trustee, underwriter, financial printer etc.) through the development of requests for proposal and written analysis of the responses.
6. Assist with review and evaluation of innovative structures, derivative products and other products or techniques which may be proposed to Denver Water from time to time.
7. Develop detailed schedules for each financing; define tasks and responsibilities and coordinate efforts of the financing team.
8. Advise and assist in the preparation for and execution of financings, including review of operative legal documents and offering statements.
9. Prepare credit profiles and assist Denver Water in making presentations to bond insurance companies and/or rating agencies.
10. Assist Denver Water in negotiations with underwriters (i.e., in negotiating appropriate terms, reviewing spreads, comparing deals, analyzing market levels, and clarifying syndicate roles with selected underwriter.) Assist in negotiations with bond insurers and/or letter of credit providers and in negotiating contracts, such as interest rate swaps, forward contracts, options, and investment agreements.
11. Provide a written, post-transaction assessment of any financings undertaken. Assist Denver Water in evaluating the performance of syndicate members, distribution of bonds, settlement and post-settlement analyses.
12. Prepare final debt service schedules.
13. Assist Denver Water in closing the financing, and provide all certifications normally provided by a FA.
14. Advise the Board on the investment of proceeds pending expenditure.
15. Provide other financial advisory services as requested.

Reporting

The Financial Advisor will report to the Board and the Director of Finance through the Manager of Treasury Operations.

PROPOSAL FORMAT AND CONTENT

The general purpose of the proposal is to demonstrate the qualifications, competence and capacity of the proposer to undertake the responsibilities of FA to Denver Water and to discuss the approach that the proposer will take in carrying out those responsibilities.

Please provide a clear, concise response. The format and relevance of the content will be one factor used to evaluate your firm's ability to communicate with senior staff and the Board.

Specifically, the proposal should include, in the following order:

Transmittal letter

The proposal should include a transmittal letter that will be considered an integral part of the proposal. The letter should indicate the name, phone number, e-mail address and physical address of the key contact person for questions about the proposal. The transmittal letter shall be signed by the individual or individuals authorized to contractually bind the firm during any negotiations that may occur during the selection process.

Qualifications

1. A brief description (one page or less) of the firm and its experience serving as a financial advisor, swap advisor and/or independent investment advisor to water utilities and to governmental entities within the State of Colorado.
2. State in two pages or less why your firm is well-qualified to provide the services listed in the scope of service and describe resources available to provide the services.
3. Identify in two pages or less the team that will provide the services if you are selected, including key personnel involved. Name sub-consultants and co-proposers. Identify who will be the primary contact for Denver Water and from what location you would provide services. The people identified in this section will be the only ones allowed to participate in an interview. Changes in members of the team will require advance approval by Denver Water. (Include, as an appendix, a brief resume for each person listed and include experience with other local governments, Colorado debt issuers and water utilities.)
4. In the event of joint proposals between two or more firms, describe the role that each sub-consultant or co-proposer would perform and briefly describe your past experiences working together.
5. Describe your firm's level of experience and expertise in the use, procurement and management of derivative products.
6. Describe any situations that have occurred in the last five years where the firm's services as a Financial Advisor were terminated prior to the expiration of a contract.
7. Describe any legal or regulatory proceeding initiated against the firm since January 1, 2000, or any notices of claims or suits that have not yet been filed, related directly or indirectly to its financial advisory services.
8. Provide a brief discussion (one page or less) of any other information that you believe to be relevant to your firm's qualifications and of particular interest to Denver Water.

Methodology and Approach to Financial Advisory Work

1. State your understanding of the work to be done and how resources will be provided to best serve Denver Water.
2. Please outline how your firm would go about educating senior staff of Denver Water and the Board regarding the applications, benefits and risks of variable rate debt and derivative products in the management of Denver Water's overall financing program.
3. Describe your firm's role in evaluating financing alternatives other than bonds. Briefly mention alternatives that you believe may be appropriate for Denver Water.
4. Outline the circumstances under which either a competitive or negotiated underwriting would be preferred. What role would your firm expect to play as FA under each method?
5. Describe any innovations you have developed or worked on for tax-exempt issuers, with a brief outline of the problem, your solution, and the results.
6. Outline the activities your firm would undertake to facilitate the marketing and sale of Denver Water's debt. Describe your firm's experience with these activities.
7. What role would your firm expect to play in refinancing Denver Water's debt? Describe your experience in this area.
8. What technical support services does your firm have available, and how would you use those services in formulating financing strategies for Denver Water.
9. Identify the key topics upon which you would focus in organizing a rating agency or bond insurance company presentation for Denver Water.
10. If your firm is an independent advisor not engaged in underwriting securities, indicate your role in structuring and pricing negotiated sales (i.e. contacts with underwriting firms, trading desks, etc. to ascertain price indications). Provide samples of structures and savings you believe your approaches generated.

References

Please provide the name, address and telephone number of three to five clients for whom services similar to those described in this Request for Proposal have been performed during the past three years.

Disclosure

Please disclose any professional, personal or other relationships, including compensation arrangements, which your firm or any individual who will be providing services currently has, or within the past 12 months has had, with any Denver Water employee or Board member.

Please disclose any other relationship that could create or appear to create a potential conflict of interest if your firm is selected, including compensation arrangements that your firm, its

related entities, or any individual who will be providing services currently has, or within the past 12 months has had, with any other potential participant in a Denver Water financing.

Please disclose any financial interest which could be a possible conflict of interest in representing the Board or Denver Water, including but not limited to arrangements to derive additional compensation from various investment and reinvestment products.

Insurance

Please describe the limits of your errors and omissions coverage.

Fees

In recognition that Denver Water will require more educational and planning work during the first two years of this contract and may issue new money bonds, restructure and reduce its outstanding debt, or engage in advance and/or current refunding to reduce interest costs, please provide fee quotations as follows:

1. Specify an annual retainer (which would be paid in monthly installments) and expenses for general financial advisory work during the first 2 years of this engagement, indicating the total number of hours of work you propose to provide under such retainer. List the work and provide a schedule of hourly rates for each individual to be assigned to this account, as well as an average composite rate.
2. Specify the hourly rate for non-transaction related or other non-routine work to be performed in the third year of the engagement.
3. Upon approval of specific transactions at anytime during the engagement, indicate in your proposal how you will charge the Board for such assignments.

In addition to reserving its right to negotiate an agreement, Denver Water reserves its right to negotiate fees for services not anticipated by the proposer in its annual retainer prior to authorizing commencement of such work. Should the hours projected to be worked exceed the number of hours specified as part of the proposer's annual retainer, Denver Water reserves its right to negotiate an adjustment in fees to compensate the FA.

SELECTION PROCESS

The criteria for selecting a FA will include, but not necessarily be limited to (1) the capability of the firm, (2) the qualifications and experience of the personnel assigned, (3) the proposer's understanding of Denver Water's requirements, (4) the proposer's understanding of and experience with the water utility industry and Colorado municipal issuers, (5) the proposer's methodology and approach to financial advisory work, (6) communication style and effectiveness (7) reference checks, (8) status as or participation with SBDE firms, and (9) the economics involved in providing services, taking into consideration the location and travel requirements of the assigned personnel.

Proposals will be reviewed by Denver Water. Oral interviews of the most responsive firms will be scheduled shortly after the deadline submission date.

Denver Water will establish an order of preference of those firms interviewed, and negotiation of an agreement with the preferred firm will be undertaken. Firms not chosen for the interview process or as final candidates for the negotiation and selection process will be notified.

TERMS AND CONDITIONS

- A. Denver Water reserves the right to request clarification of information submitted and to request additional information from one or more applicants.
- B. Proposals will not be accepted after the deadline listed on the first page. Firms are encouraged to submit proposals well in advance of the deadline to avoid possible courier or mail delays, and to confirm receipt of the proposal with Mrs. Kempke.
- C. Denver Water reserves the right to reject any and all proposals and to waive irregularities in any submittal if that is determined to be in the best interest of the Board. Denver Water will not be responsible for the cost of preparing a proposal, or travel or other costs incurred should an interview opportunity be offered.
- D. Denver Water shall require a separate, written contract, the final terms and conditions of which will be negotiated with the selected firm. Any such contract shall become effective only upon acceptance by the Board.